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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	CC Docket No. 97-250
Tariffs Implementing	)	
Access Charge Reform	)	

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DIRECT CASE OF
THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

I. INTRODUCTION

The Southern New England Telephone Company ("SNET") submits this Direct Case in response to the Common Carrier Bureau of the Federal Communications Commission's ("Commission") Designation Order.[1]

In this Direct Case, SNET provides detailed information on investigation issues regarding non-primary residential lines, methodology for calculating exogenous cost changes, transport adjustments, and recovery of new universal service support obligations.

II. DEFINITION OF NON-PRIMARY AND PRIMARY LINES.

In its Designation Order, the Commission states that SNET's definition of non-primary lines is too vague.[2] As Exhibit 1, SNET provides revised tariff language further clarifying the application of a residence primary or non-primary rate. As indicated in the

[1] In the Matter of Tariffs Implementing Access Charge Reform, Order Designating Issues For Investigation and Order On Reconsideration, CC Docket No. 97-250, DA 98-151 (Common Carrier Bureau), released January 28, 1998 ("Designation Order").

[2] Designation Order, at para. 15.

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proposed tariff, SNET determines primary or non-primary lines based on the following criteria: 1) end user identity (Account Number); 2) service location; and 3) Universal Service Order Codes ("USOCs") on the customer account record identifying non-primary or additional lines. On a going-forward basis, SNET will designate the first line installed at the customer service location as the primary line; subsequent lines will be designated non-primary. SNET believes that its definition of non-primary and primary lines (as clarified herein) is reasonable because it aligns with the principles set forth in the Commission's Notice of Proposed Rulemaking in CC Docket No. 97-181.[3] It is administratively simple to administer and not invasive of customer privacy.

As requested in the Designation Order,[4] SNET provides Exhibit 2, which identifies the number of lines by the following categories: 1) primary residential; 2) single line business; 3) non-primary residential; and 4) BRI ISDN. SNET also provides Exhibit 3, as requested by the Commission in its Designation Order.[5] Exhibit 3 indicates the criteria used by SNET in determining line counts.[6]

Application of the Commission's proposed SLC and PICC designations is dependent on SNET's end user billing systems and customer records, primarily its Customer Record and Information System (CRIS) database. CRIS and its associated record systems are large, complex mechanized systems which are highly integrated with other SNET service order provisioning and record-keeping systems. These systems have been used to apply some interstate access charges (e.g., SLCs), but they were primarily designed to bill for state local exchange service and regulatory requirements.

Although SNET has traditionally maintained residence vs. business class of service distinctions, and applied specific USOCs to additional lines, the Commission's

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[3] In the Matter of Defining Primary Lines, Notice of Proposed Rulemaking, CC Docket No. 97-181, released September 5, 1997 ("NPRM").

[4] Designation Order, at para. 17.

[5] Id.

[6] As requested by the Commission, SNET's Exhibit 3 utilizes the codes and worksheets provided in Appendix B to the Commission's Designation Order.

specific new mandate to distinguish between primary and non-primary residence lines was never contemplated. Indeed, as local exchange and access telephone services have become increasingly competitive, and subject to resale and unbundling, SNET's business preference has generally been to move towards elimination of such residence and business service distinctions. Given the structure of SNET's billing systems and customer records, SNET believes that it implemented the distinction between primary and non-primary lines in a reasonable manner.

III. RELATIONSHIP BETWEEN PART 69 REVENUE REQUIREMENTS AND COSTS.

In its Designation Order,[7] the Commission notes that, after seven years of price caps, it is likely that Part 69 revenue requirements have a very attenuated relationship to the "costs" actually recovered through any particular rate element and, therefore, the best measure of "costs" recovered is not Part 69 revenue requirements, but revenues. The Commission seeks comment on this conclusion.

The question of how to transfer costs among baskets or categories differs from the question of how to transfer revenue streams associated with existing rate elements or services. SNET does not disagree therefore, with the Commission's conclusion in paragraph 50, that revenues should be used to move rate elements or services out of price cap baskets or service categories. When a service or rate element is transferred out of a basket or service category it is entirely appropriate to remove that rate element or service's revenue stream regardless of the associated level of contribution or return. This revenue stream is readily available and does not have to be estimated. In contrast, network components such as line and trunk ports are not offered as specific services or rate elements and have no identifiable revenue stream.

In fact, since entering price caps, SNET has effected several inter-basket and inter-service category transfers on a revenue basis -- e.g., the transfer of LIDB services from the Transport basket to the Database category of the Traffic Sensitive basket; the

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[7] Designation Order, at para. 48.

transfer of Dedicated Transport rate elements from the Traffic Sensitive basket to the Trunking basket; and the transfer of STP ports in the instant filing.[8]

As the Commission itself points out in its Designation Order,[9] the Access Reform Order[10] required LECs to "separate from the projected annual revenues for the Local Switching elements those *costs* projected to be incurred from ports on the trunk side of the local switch." SNET interpreted "costs" to be exactly that -- *costs,* not revenues. Revenues may include different degrees of contribution to joint and overhead costs, as well as profit. Revenues do not represent the cost of a particular rate element and, to SNET's knowledge, have never been used in prior circumstances without explicit Commission ruling, to effect exogenous cost changes to reallocate costs among baskets or out of price cap regulation.

To now require LECs to assume that the term "costs" is equivalent to "revenue" would appear to be a significant change in Commission practice and policy. It also raises questions about how such a cost surrogate would be calculated. AT&T seems to suggest that LECs derive percentages of line and trunk port investment to total local switching investment, and multiply this percentage by Local Switching band revenues. Although seemingly straight-forward, this methodology raises questions about the lack of alignment between ARMIS categories and price cap revenue categories. ARMIS Traffic Sensitive Switching investment, for example, includes tandem switching costs which are not in the price cap Local Switching band revenues. Further, price cap band revenues may include revenues unrelated to ARMIS investment (e.g., Billing Name and Address revenues are in the price cap Local Switching band, but investment is likely in the ARMIS Billing and Collection category).

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[8] The only issue raised in some of these circumstances has been what degree of price cap "headroom" should or should not be transferred with the revenues; but this is a question completely unrelated to costs and one which has been dealt with effectively by Commission order, as in the Trunking basket restructure.

[9] Designation Order., at para. 46.

[10] In the Matter of Access Charge Reform, Price Cap Performance for Local Exchange Carriers, Transport Rate Structure and Pricing and End User Common Line Charges, CC Dockets 96-262, 94-1, 91-213, 95-73, First Report and Order, released May 16, 1997 ("Access Reform Order").

SNET also agrees with the Sprint LTCs that the effect of adopting AT&T's revenue-based allocation would permanently assign a portion of the difference between revenues and line port costs to the Common Line basket, likely increasing charges to flat-rate PICC subscribers and lengthening the duration of a per MOU CCL rate. It is questionable whether such an impact is appropriate. Effectively, the Common Line subsidy, which the Access Reform Order was intended to eliminate, would be replaced by the transfer of other contribution amounts.

IV. METHODOLOGY FOR CALCULATING EXOGENOUS COST CHANGES.

As requested by the Commission in its Designation Order,[11] SNET provides Exhibit 4. Exhibit 4 lists all exogenous adjustments SNET has made since its entry into price caps for the purpose of reallocating costs among baskets, service categories, rate elements, or between price cap and non-price cap services. As stated above, absent specific prior Commission directive, SNET has consistently based prior exogenous adjustments of this nature on Part 69 Revenue Requirements.

V. TRANSPORT ADJUSTMENTS.

In its Designation Order, the Commission requires each LEC to provide detailed information substantiating the amount of COE maintenance and marketing costs that were removed from the trunking basket, and the portion of that amount that was removed from the TIC.[12] SNET appropriately removed both COE maintenance expenses and marketing expenses from the TIC. Provided for reference, as Attachment 5, are SNET's workpapers, as follows:

Revised Workpaper H (Trans. 704)
Workpaper B - Marketing Expense (Letter Filing 11/26/97)
Workpaper I-1 and I-2 - COE Marketing Expense (Letter Filing 11/26/97)

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[11] Designation Order, at para. 51.

[12] Id., at para 67.

SNET's marketing expenses were removed as explained in the Description of the Letter Filing on November 26, 1997. The marketing expense in Account 6610 was removed, except for the Special Access and Interexchange Services.[13] Based on ARMIS 43-01, filed on April 1, 1997, $16,173,831 of SNET's marketing expenses were assigned to price cap baskets in the interstate jurisdiction. Of this amount, $2,898,709 was allocated to Special Access, and the remaining $13,275,122 was removed from the Common Line, Trunking and Traffic Sensitive baskets. Workpaper B, from SNET's Letter Filing on November 16, 1997, showed the ARMIS allocation and the allocation to price cap baskets. $3,438,833 was allocated to the Trunking basket. This amount was apportioned to each service category based on the switched access revenue in each service category as illustrated in Exhibit 6.

The resulting amounts were as follows: High cap - $904,757; Voice Grade - $186,728; Tandem - $637,216; and TIC - $1,710,132. The TIC marketing exogenous amount is removed in the TIC Workpaper H, filed in Transmittal #704, line 8.E. The Trunking basket marketing exogenous allotment was also shown in the SUPP-EXG2 form filed on December 17, 1997 in SNET's Transmittal #704.

Absent a means to identify COE maintenance expenses associated with specific price cap bands, including the TIC, SNET treated COE maintenance as an exogenous cost at the basket level. SNET's quantification of the appropriate basket amount was based on ARMIS data and is documented on Workpapers I-1 and I-2.

As a result of applying the standard price cap formula, the amount of basket exogenous cost allocated to each service band is based on the ratio of the service band "R" value revenue to the total basket "R" value revenue. See Exhibit 7. The resulting TIC amount ($1,045,683) is included on Workpaper H, line F, together with a similarly allocated portion of GSF expenses ($130,029).[14] This amount was also shown on the

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[13] Access Reform Order, at para. 323.

[14] .211934 x $613,540, the basket level GSF amount shown on EXG-3, line 300, col. A, Trans. 704.

SUPP-EXG2 form and explained in the Appendix F Revised, both filed in Transmittal #704.

In its Designation Order,[15] the Commission tentatively concludes that marketing expense and COE maintenance costs be allocated to the TIC as it existed prior to July 1, 1997. As noted, SNET found no Commission directive to specifically target COE maintenance or GSF expenses to the service category level.[16] SNET believes it was, therefore, proper to treat these changes as basket-level exogenous cost adjustments. The amount allocated to each service category was appropriately based on a standard "R" value revenue weighting.

VI. SNET PROPERLY ESTIMATED THE IMPACT ON THE TIC ARISING FROM THE USE OF ACTUAL MOU RATHER THAN ASSUMED 9000 MOU.

In its Designation Order,[17] the Commission concludes that price cap LECs should not have calculated new tandem-switched transport rates pursuant to Rule 69.111(c). The Commission states that Rule 69.111(c) applies only to price cap LECs for purposes of computing initial charges for new rate elements pursuant to 69.1(c). Instead, the Commission asserts that price cap LECs should have recalculated their tandem-switched transport rates using the same data that was used when establishing rates in 1993, only replacing the 9000 MOU assumption with current actual MOU quantities. The Commission indicated that the price cap LECs should determine what percentage of the original TIC was attributable to the 9000 MOU assumption, and make an exogenous adjustment to their June 30, 1997 TIC SBI by that percentage. LECs should also make a corresponding exogenous adjustment to their tandem switched transport SBIs, based on the percentage of tandem-switched transport revenue attributable to the 9000 MOU assumption.[18]

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[15] Designation Order, at para. 68.

[16] See id., para. 223 (no explicit directive was given to differ from past directives).

[17] Id., at para. 78.

[18] SNET never made any representation that its actual usage factor was less than 9000.

SNET believes that the Commission's conclusion conflicts with the plain language of the Commission's Access Reform Order. Paragraph 206 of the Access Reform Order not only instructs LECs to use actual MOU rather than 9000 MOU, it also instructs LECs to set rates for common transport "using a weighted average of DS1 and DS3 rates reflecting the relative numbers of DS1 and DS3 circuits in use in the tandem-to-end office link . . . geographically averaged on a study-area wide basis, that the LEC experiences based on the prior year's annual use." Similarly, paragraph 208 states:

> We therefore direct incumbent LECs to develop common transport rates based on the relative numbers of DS1 and DS3 circuits in use in the tandem-to-end office link, and using actual voice-grade circuit loadings, geographically averaged on a study-area-wide basis, that the incumbent LEC experiences based on the prior year's annual use.

Thus, the Access Reform Order contemplated use of revised factors other than the replacement of the MOU loading factor. LECs were directed to use updated DS1 and DS3 quantities. Further, the use of updated rates was clearly anticipated since LECs were instructed to develop geographically averaged rates. To SNET's knowledge, few if any LECs, had zoned switched transport rates in 1992 when the original tandem switched transport rates were calculated. Unless LECs were to use updated rates, there would be no need to specify that rates be geographically averaged.

Moreover, SNET notes that other portions of Rule 69.111 do not strictly involve new rate elements. For example, 69.111(g)(1) simply prescribes that the existing tandem switching charge be set to recover twenty percent of the annual Part 69 interstate tandem revenue requirement plus one-third of the portion of the tandem switching revenue requirement being recovered through the interconnection charge.

SNET respectfully suggests that the Commission apply Rule 69.111(c) on an "all or nothing" basis. To consider only the MOU factor would not only conflict with the clearly stated intentions of the Access Reform Order, but would apply one of numerous factors which have changed since 1992 (the base period for Long Transport Restructure).

In essence, since all other factors (including DS1/DS3 proportions, demand quantities, transport rates, mux quantities, and analog/digital switch quantities) would be held at 1992 levels, the Commission would be ordering SNET to assume that its current circuit loading factor would have existed in 1992. There is no valid basis for this assumption. Indeed, since 1992 it is quite likely that in SNET's case, the actual usage factor may have been higher than 9000, since many interexchange carriers have replaced tandem routed trunks with direct routed facilities. Consequently, it is inappropriate to consider the MOU factor in isolation.

Should the Commission determine that Rule 69.111 does not apply to price cap LECS, SNET notes that it would be necessary to adjust its residual TIC calculations shown on Workpaper H. Specifically, the negative amount shown on line 8D for Tandem Revenue Differential would be zero; but the amount shown on Line 8B, representing Common muxes, would be decreased to reflect the removal of one Common DS1/DS3 mux which was originally contained in the Tandem Termination rate.

VII. SNET PROPERLY RECALCULATED ITS RESIDUAL AND FACILITIES-BASED TIC AMOUNTS.

In its Designation Order,[19] the Commission tentatively concluded that some price cap LECs have not demonstrated that they properly calculated their residual and facilities-based TIC amounts. Noting that LECs which still have non-facilities-based residual TIC could not have over-targeted their July 1997 X-factor reduction to the TIC, the Commission requires only those LECs without a remaining non-facilities-based TIC to recalculate the removal of TIC costs and the facilities-based portion of the TIC using the worksheet provided by AT&T in the December 23, 1997 petition. The Commission seeks comment on the proposed use of the AT&T worksheet.

Upon correction of an error in its CAP-1 form (SNET Trans. No. 707, filed February 5, 1998), SNET also eliminated its non-facilities residual TIC. SNET, therefore, provides as Exhibit 8, its TIC Recalculation based on AT&T's proposed

[19] Designation Order, at para. 90.

methodology. A comparison of this Workpaper to SNET's TIC calculation on Revised Workpaper H, reveals that SNET's calculations were very similar to those proposed by AT&T.

SNET's excess targeted TIC amount according to the AT&T Worksheet is $4,766,615. As shown on SNET's Revised Workpaper H, line 9A, SNET calculated an amount of $3,418,130. The difference is attributed to two factors. First, the AT&T worksheet is based on SNET TIC revenues as of June 30, 1997, or $43,500,572. SNET's Workpaper H was based on an amount of $43,545,440. SNET's amount was derived by adding current "R" value TIC revenue to the amount of targeted TIC revenue in the July annual filing. Although the difference is slight, SNET believes its TIC revenue figure is more appropriate since it considers tariff filings and TIC rate changes made since July 1, 1997.

The other difference is the amount shown on AT&T Worksheet, line 250 ("Actual vs. 9000 Reinitialization") and the amount shown on SNET's Revised Workpaper H, line 8D ("Tandem Revenue Differential"). As discussed in Section VI, SNET reflected the impact of other significant changes to its tandem transport revenues, including SNET's new fiber mix, updated zone-weighted rates and the removal of DS1/DS3 muxes from the Tandem Termination rate. SNET's net TIC amount for muxes and tandem revenue changes was $424,120.[20] The AT&T workpaper reflects only the impact of replacing the 9000 usage factor with actual (Line 250).

SNET's Revised Workpaper H, line 8A, also showed a TIC adjustment of $2,095,348 for common muxes. Since this amount reflected two muxes which are now being recovered by the new common mux rate, and only one is transferred directly from the TIC, SNET has removed the cost of one common mux.

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[20] Revised Workpaper H, line 8B [$2,095,348] + line 8D [($1,671,228)].

VIII. SNET'S METHODOLOGY REGARDING RECOVERY OF NEW UNIVERSAL SERVICE SUPPORT OBLIGATIONS ACCURATELY REFLECTS THE DISTRIBUTION OF INTERSTATE END-USER REVENUES ACROSS BASKETS.

In its Designation Order,[21] the Commission requires LECs to submit explanations detailing why the methodology each used to allocate USF in the trunking basket more accurately reflects the distribution of interstate end-user revenues across baskets. LECs must also explain the methodology used and any assumptions made to determine these allocations. Price cap LECs must also report the interstate end-user revenues derived from each basket during the accounting period used to calculate universal service contribution.

The billing information accurately reflects the dollars in the price cap baskets attributable to end users. The Form 457 reflects price cap and non-price cap revenues. Only price cap revenues should be used to allocate exogenous amounts in price caps.

In addition, the Commission seeks comment on two different methods used to allocated USF expenses to the trunking basket. The first utilizes the end user revenue listing on Form 457, columns 34-47. The second method derives price cap basket allocation factors by combining price cap revenues with internal company billing records.

For the December Access Reform filing, SNET utilized the second method, believing that this method was consistent with past allocation practices, specifically, SNET's annual allocation of Telecommunication Relay Support Obligations. The only modification for USF was to separate end user revenues. This was accomplished using internal CABS billing records reflecting special access service revenues billed to end user accounts. As a result, SNET allocated 5.7% of its USF expenses to the Trunking basket. SNET does not have a strong preference for either methodology. Although there may be some variation due to timing and other accounting differences (e.g., the current Form 457 represents only six months of data), SNET does not anticipate that either method will result in significantly different allocation percentages. Use of Form 457 may also present

[21] Designation Order, at para. 95.

additional administrative difficulties as its final form is not due until March 31, 1998, which would not allow its inclusion in any advance "short form" annual filing Tariff Review Plan submissions. Should the Commission deem it necessary to mandate a specific methodology, SNET respectfully requests that such a change consider such administrative costs and be required only on a prospective basis.

IX. CONCLUSION

As demonstrated in this Direct Case, SNET's Tariff Implementing Access Charge Reform, Transmittal Nos. 704, 705 and 707, is in compliance with the Commission's rules.

Respectfully submitted,

THE SOUTHERN NEW ENGLAND
TELEPHONE COMPANY

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February 27, 1998

INDEX TO EXHIBITS

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Exhibit 2	Number of Lines Identified by Category
Exhibit 3	Criteria Used in Determining Line Counts
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Exhibit 5	SNET Workpapers: Revised Workpaper H (Trans. 704) Workpaper B - Marketing Expense (Letter Filing 11/26/97) Workpaper I-1 and I-2 - COE Marketing Expense (Letter Filing 11/26/97)
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Exhibit 7	Allocation of COE Maintenance Expense
Exhibit 8	AT&T Example of TIC Recalculation

Additions to the tariff in bold.

EXHIBIT 1

ACCESS SERVICE

4.1 End User Access Service (Cont'd)

4.1.3 Application of End User Access Service Rates (Cont'd)

D. Single Business Telephone Exchange Service

When an end user is provided a single business Telephone Exchange Service in a state by the Telephone Company, the Single Line Business Subscriber rate applies to the service.

E. Residence Telephone Exchange Service

When an end user is provided a **single** residence **local** Telephone Exchange Service **at a service location** by the Telephone Company, **under the general or local exchange tariffs**, the Primary Residence Subscriber rate set forth in Section 4.1.4(a) following applies. Each additional local residence exchange line will be billed the Non-primary residence rate set forth in Section 4.1.4(d) following. **(N)**

When an end user is provided with more than one local residence exchange service at the same location, only one line will be classified as Primary and all other lines are considered to be Non-primary. The Non-primary residence subscriber line rate as set forth in Section 4.1.4(d) following applies to each such Non-primary local residence exchange service. **(N)**

For exchange residence service installed prior to January 1, 1998, the Telephone Company will use existing service records to determine which line is primary. Current billing records contain Universal Service Order Codes (USOCs) that identify Non-primary residence lines.

For exchange service established after January 1, 1998, if the end user orders more than one line at the same service location, the first line installed will be Primary. **(N)**

When an end user is provided a residence Telephone Exchange Service by the Telephone Company, and if the residential exchange rate for such end user is a reduced residential exchange rate based upon a means test that is subject to verification, the EUCL - Residence Subscriber - Individual line or trunk rate in Section 4.1.4(a) following shall be applied to that line and reduced by the amount indicated:

	Amount
Lifeline Support	$3.50

Each line that receives Lifeline support treatment will be assessed the PICC. Lifeline customers who have not elected an interexchange carrier (PIC) will not be assessed the PICC.

EXHIBIT 2

NUMBER OF LINES IDENTIFIED BY CATEGORY

LINE TYPE	NUMBER OF LINES
Primary Residential	15,381,848
Single Line Business	487,048
Non-primary Residential	1,037,964
BRI ISDN	34,891

WORKSHEET

Using the codes and worksheets provided on Pages 2 and 3, indicate the criteria used in determining line counts by following the examples on Page 4.

I. Line Count Data Formation (Use All that apply.) | **II. Line Count Data Identification** (Report in Classification Sequence.)

	Sources	Search	Data Collection	Time Period	Criteria First	Second	Third	Fourth
Primary Residential Lines	D3	S1	C2	T1	R5	A3		
Single Line Business	D3	S1	C2	T1	N0(a)	N0(b)		
Non-Primary Residential Lines	D3	S1	C2	T1	R5	A3		
BRI - ISDN Lines	D3	S1	C2	T1	N0(c)	N0(d)		

T1 - 12 monthly "snapshots" (Jan-Dec), Summed for the entire year

R5 - Universal Service Order Code (USOC) for Residence Lines - different codes for 1st res line vs. aux res line

N0(a) - looks for Business Line USOC

N0(b) - looks at another USOC indicating Single vs. multiline line

N0(c) - looks for BRI Line USOC

N0(d) - looks for Residence or Business USOC

WORKSHEET

Implementation of Definition - Based on your **RESIDENTIAL LINE** definitions, please classify the data in the last column below as a **P** for Primary Residential or **NP** for Non-Primary Residential lines. You may add columns and/or show additional criteria needed to illustrate the implementation of your line definitions.

Customer	Billing/ Account No.	Line Location	Phone Numbers	Installation Date (Order)	Service/Inv. Work Order No.	Billing Address	P/NP Decision
N. Adams	555-1111 6789	123 Elm #1	555-1111	1/1/96 (1)	6789 - 1111	P.O.	P
			555-1112	1/1/96 (2)	6789 - 1112	Box 123	NP
P. Adams	555-2222 6789	123 Elm #1	555-2221	5/5/96	6789 - 2221	P.O.	NP
			555-2222	4/5/96	6789 - 2222	Box 123	P
P. Adams	555-3333 4567	123 Elm #2	555-3333	3/3/96	4567 - 3333	P.O. Box 123	P
P. Boyd-Adams	555-4444 5678	123 Elm #2	555-4444	4/5/96	5678 - 4444	P.O.	P
			555-4448	7/5/96	5678 - 4448	Box 123	NP
E. Boyd-Adams	555-4447 5678	123 Elm #2	555-4447	5/5/96	5678 - 4447	P.O. Box 123	P

EXHIBIT 4

EXOGENOUS ADJUSTMENTS

Transmittal No.	Date Issued	Date Effective	Exogenous Change	Method
567	6/16/93	7/1/93	General Support Facilities Expense Reallocation, Docket 92-222	Revenue Requirement. Cost reallocations based on analysis and restatement 1992 ARMIS data.
Letter Filing	9/23/96	12/12/96 (with Transmittal No. 683)	Removal of Inmate Payphone costs from Common Line	Costs identified based on the ratio of 1995 Inmate Payphone investment to 1995 total payphone investment multiplied times total interstate revenue requirement.
687	1/15/97	4/15/97	Removal of Non-inmate Payphone costs from Common Line	Based on "payphone cost allocator" (ratio of payphone set revenue requirement to total Common Line revenue requirement, based on 11.25% return) multiplied by Common Line "R" value. This methodology was specifically prescribed by the FCC in its Payphone Report and Order released 9/20/96 and its Order on Reconsideration released 11/8/96.

EXHIBIT 5

SNET WORKPAPERS

Revised Workpaper H (Trans. 704)
Workpaper B - Marketing Expense (Letter Filing 11/26/97)
Workpaper I-1 and I-2 - COE Marketing Expense (Letter Filing 11/26/97)

Souu ıern New Eıigland Telephone
Transmittal #704

REVISED vvORKPAPER H

TIC RATE DEVELOPMENT

					Source
1.	A.	Current TIC Revenue from 1997 Annual Access Filing		$19,620,180	Trans # 702,RTE-1,pg 4
	B.	Targeted TIC Revenue from 1997 Annual Filing		$23,925,260	Trans # 694,PCI-1
	C.	Total TIC Revenue (6/30/1997)		$43,545,440	Line 1A + Line 1B
2.	A.	80% of Tandem Rev requirement not in TS rate		$10,879,183	Trans # 593,pg 69.111of Revised Supp TRP
	B.	TIC Revenue at the time of LTR		$35,520,840	Trans # 593, pg 69.124 of Revised Supp TRP
	C.	Original TIC Related to 80% Tandem Revenue Reqmnt		31%	(Line 2A /Line 2B)*100
3.		31% of current TIC Revenue		$13,336,926	Line 1C * Line 2C
4.	A.	Minus	Dedicated Tandem Ports - 80%	$2,080,906	Revised Workpaper K
	B.	Minus	STP costs - 80%	$1,743,200	Revised Workpaper G
		Total		$3,824,106	Line 4A + Line 4B
5.	A.	Total TIC Revenue to move to Tandem Switching		$9,512,820	Line 3 - Line 4
	B.		1/3 on 1/1/1998	$3,170,940	Line 5A / 3
	C.		1/3 on 1/1/1999	$3,170,940	Line 5A / 3
	D.		1/3 on 1/1/2000	$3,170,940	Line 5A / 3
6.		New 3 Part Rate Structure Revenue		$2,035,799	Appendix C
7.		Total Residual TIC		$28,172,715	Line 1C - Line 3 - Line 6
8.	A.	Minus	Host-Remote Costs	$4,217,618	Revised Workpaper M, Line 3 + Line 4
	B.	Minus	Common Muxes on EO side of Tandem	$2,095,348	Workpaper D, Line 11B + Workpaper J, Line 12B
	C.	Minus	Zone Pricing Differential	$138,002	Workpaper N3
	D.	Minus	Tandem Rev Differential	($1,671,228)	Revised Workpaper M, Line 1 + Line 2
	E.	Minus	Marketing Expense	$1,710,132	49.7% of Marketing Expense
	F.	Minus	21.19% Untargeted Exogenous	$1,175,712	Line 1/Total Basket Rev * Total Untarg Rev
	G.	Total		$7,665,585	Lines 8A +8B + 8C + 8D + 8E + 8F
9.					
	A.	Residual TIC		($3,418,130)	Line 7 - Line 8G - Line 1B
		Retargeting TIC			
	B.	From Common Line Basket		($1,955,170)	Line 9A * 57.2%
	C.	From Traffic Sensitive		($1,462,960)	Line 9A * 42.8%
10.		Final Residual TIC Revenue to be recovered 1/ 1/1998			
	A.	Tandem Switching 2/3		$6,341,880	Line 5C + Line 5D
	B.	New 3 Part Rate Structure Revenue		$2,035,799	Line 6
	C.	Total		$8,377,679	Line 10A + Line 10B

INTERSTATE MARKETING EXPENSE

ARMIS - Allocation

*Source Report 4301

Common Line (A)	Local Switching (B)	Information (C)	Local Transport (D)	Special Access (E)	Total (G = A + B + C + D + E+F)
$6,915,044	$2,904,511	$16,734	$3,438,833	$2,898,709	$16,173,831

Price - Cap Allocation

Common Line Col A	Traffic Sensitive Cols B & C	Trunking Basket Col D	Total Current Baskets Col E
($6,915,044)	($2,921,245)	($3,438,833)	$13,275,122

SNET
IMPACT OF COE MAINTENANCE RULE CHANGE
($000)

	(A) SOURCE	(B) INTERSTATE	(G) TOT TRAFFIC SEN	(H) SPECIAL ACCESS	(I) B & C	(J) IX
1 COE OPERATOR SYSTEM	ARMIS L1170	1,569	1,569	-	-	-
2 COE TANDEM SWITCHING	ARMIS L1204	51,390	51,390	-	-	-
3 COE LOCAL SWITCHING	ARMIS L1219	149,360	149,360	-	-	-
4 TOTAL COE SWITCHING	L2 + L3	200,750	200,750	-	-	-
5 COE TRANSMISSION	ARMIS L1400	275,596	100,497	96,670	-	851
6 TOTAL COE	L1 + L4 + L5	477,915	302,816	96,670	-	851
COE BEFORE CHANGES						
7 COE SWIT EXP - 6210	ARMIS INPUT	23,094	14,621	4,682	-	41
8 COE O/S EXP - 6220	ARMIS INPUT	245	156	54	-	-
9 COE TRANS EXP - 6230	ARMIS INPUT	6,320	4,004	1,273	-	11
10 TOTAL COE EXPENSE	L7+L8+L9 or ARMIS L5026	29,660	18,781	6,010	-	52
COE AFTER CHANGES						
11 COE SWIT EXP - 6210	L7B*(L4/L4B)	23,094	23,094	-	-	-
12 COE O/S EXP - 6220	L8B*(L1/L1B)	245	245	-	-	-
13 COE TRANS EXP - 6230	L9B*(L5/L5B)	6,320	2,305	2,217	-	20
14 TOTAL COE EXPENSE	L11 + L12 + L13	29,660	25,644	2,217	-	20
EFFECT OF CHANGES						
15 COE SWIT EXP - 6210	L11 - L7	-	8,473	(4,682)	-	(41)
16 COE O/S EXP - 6220	L12 - L8	-	89	(54)	-	-
17 COE TRANS EXP - 6230	L13 - L9	-	(1,699)	944	-	9
18 TOTAL COE EXPENSE	L14 - L10	-	6,863	(3,793)	-	(32)

COE MAINTENANCE EXPENSE

Price - Cap Allocation

	Common Line Line 18, Col C	Traffic Sensitive Line 18, Cols D & F	Trunking Basket Line 18, Cols E & H	Total
Amount For Price Cap Baskets	($3,038,000)	$8,004,000	($4,934,000)	$32,000

*SOURCE WORKPAPER I-1

EXHIBIT 6

TRUNKING BASKET ALLOCATION OF MARKETING EXPENSE

SERVICE BAND	SWITCHED REVENUES	% OF TOTAL	MARKETING EXPENSE
High Cap	$10,382,113	26.31%	$ 904,757
Voice Grade	$ 2,141,004	5.43%	$ 186,728
Tandem	$ 7,312,459	18.53%	$ 637,216
TIC	$19,620,178	49.73%	$1,710,132
Total *	$39,455,754		$3,438,833

* Revenues from Transmittal No. 704, RTE-1.

EXHIBIT 7

ALLOCATION OF COE MAINTENANCE EXPENSE

			Source
1.	Current TIC Revenue (at last PCI Update)	$19,620,180	Trans. 702, SUM-1, line 171(c)
2.	Current Trunking Basket Revenue	$92,576,852	Trans. 702, SUM-1, line 220(c)
3.	TIC Revenues as % of Total Trunking	21.1934%	line 1 / line 2
4.	Trunking Basket COE Maintenance Exg. Amount	($4,934,000)	Workpaper I-2
5.	TIC COE Maintenance Exg. Amount	($1,045,683)	line 3 x line 4